

Memorandum

*Flex your power!
Be energy efficient!*

To: GILBERT J. PETRISSANS
Accounting Administrator II
Local Program Accounting Branch

Date: October 6, 2009

From: MARYANN CAMPBELL-SMITH
External Audit Chief
Audits and Investigations

Subject: Southern California Regional Rail Authority Fiscal Year 06/07 Negative Indirect Cost Rate for Equipment Division

Attached are the Southern California Regional Rail Authority (SCRRA) approved Indirect Cost Allocation Plan (ICAP) rates for fiscal year (FY) 2006/2007. Please note that included in the approved rates is a negative rate of 64.59 percent for the SCRRA's Equipment Division. The negative final rate is the result of a significant negative carry-forward from FY 2004/2005. This negative rate should affect a minimum number of projects.

If you reimbursed project costs that included direct labor costs from SCRRA's Equipment Division during FY 2006/2007 you should expect to see a supplemental billing that includes a credit for indirect costs. The credit should equal the total direct labor costs billed and reimbursed by the rate of 64.59 percent.

SCRRA has taken steps to ensure that negative rates will not occur in the future by electing to only submit ICAP's based on actual costs after FY 2004/2005.

If you have any questions, please contact me Lisa Moreno, Auditor, at (916) 323-7885, or Cliff Vose, Audit Manager, at (916) 323-7917.

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
William D. Bronte, Division Chief, Division of Rail
James Ogbonna, Branch Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation
Jenny N Tran, Accounting Administrator 1, Local Program Accounting Branch, Division of Accounting
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*Flex your power!
Be energy efficient!*

October 6, 2009

Mr. Edward Enriquez
Accounting Manager
Southern California Regional Rail Authority
700 S. Flower Street, 26th Floor
Los Angeles, CA 90017

Re: Southern California Regional Rail Authority
Audit of Indirect Cost Allocation Plan for FY 2006/07
File No: P1190-0695

Dear Mr. Enriquez:

We have audited the Southern California Regional Rail Authority's (SCRRA) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2007 to determine whether the ICAP is presented in accordance with Title 2 of the Code of Federal Regulations, Part 225 (formerly Office of Management and Budget (OMB) Circular A-87) and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. SCRRA management is responsible for the fair presentation of the ICAP. SCRRA proposed the following indirect cost rates:

Fiscal Year	2007
New Capital	371.65%
Capital Maintenance	390.27%
Equipment	-64.59%
Recollectable	257.30%

Base: Total direct salaries.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SCRRA. Therefore, we did not audit and are not expressing an opinion on the SCRRA's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SCRRA, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR, Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of SACOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP and a limited review of SCRRA's Overall Work Program for fiscal year 2006/07. A review of SCRRA's single audit report for the fiscal year ended June 30, 2007, inquiries of SCRRA personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior audit field work performed by the Department in June 2008. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, SCRRA's ICAP for the fiscal year ended June 30, 2007 is presented in accordance with 2 CFR, Part 225 and LPP 04-10. The approved indirect cost rates are as follows:

Fiscal Year	2007
New Capital	371.65%
Capital Maintenance	390.27%
Equipment	-64.59%
Recollectable	257.30%

The base is direct salaries.

This report is intended for the information of (auditee), Department Management, the California Transportation Commission, and the Federal Highway Administration (FHWA). This report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno, Auditor, at (916) 323-7885 or Cliff Vose, Audit Manager, at (916) 323-7917.

MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- William Bronte, Division Chief, Division of Rail
- James Ogbonna, Chief, Rural Transit and Procurement, Division of Mass Transportation
- Jenny Tran, Accounting Administrator 1, Local Program Accounting Branch, Division of Accounting
- Kirk Cessna, Senior Transportation Engineer, District 7

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
INDIRECT COST ALLOCATION PLAN FISCAL YEAR 2006-07

Submitted: May 21, 2008



**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
INDIRECT COST ALLOCATION PLAN FISCAL YEAR 2006-07**

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY INDIRECT COST ALLOCATION PLAN FISCAL YEAR 2006-07

EXECUTIVE SUMMARY

This document outlines the step-by-step process utilized in the development of the Southern California Regional Rail Authority's (SCRRA) Cost Allocation Plan. It explains the procedure followed in FY 2006-07 in allocating overhead costs to the projects worked on for the fiscal year.

SCRRA has a three tier accounting structure, including: 1) General and Administrative Costs (G&A), 2) Project Overhead Costs, and 3) Project Direct Costs. SCRRA's Indirect Cost Allocation Plan (ICAP) allocates indirect cost to direct projects in a two-tier model. In the first tier, G&A costs are allocated to project overhead pools within each of the Project Categories. The second tier allocates cost in the project overhead pools (project category overhead costs plus allocated G&A) to direct projects within each project category based on direct labor charges. The proposed ICAP rates are based upon the actual costs for the fiscal year.

SCRRA maintains a single project to record allowable G&A expenses, project 000000. G&A expenses are defined as agency-wide expenses which cannot be specifically associated with a single project category, but rather benefit multiple project categories. Examples of G&A expenses include lease of the administrative office space, utilities, and administrative departments such as Human Resources. Additionally, SCRRA maintains unallowable G&A costs in project number 000002. Costs captured in this project are defined in OMB Circular A-87 as not allowable for reimbursement in the cost allocation plan. The FY 2006-07 ICAP calculates that the relationship of G&A expenses to project indirect and direct labor is an annual actual rate of 81.27%.

SCRRA maintains seven project categories, including Train Operations (project 100000), Maintenance of Way (project 200000), New Capital (project 400000), Capital Rehabilitation & Renovation (project 500000), Equipment (project 600000), Recollectables (project 800000), and PL/PD (project 900000). For purposes of overhead accumulation and calculation purposes project 900000 is combined with project 100000 as the costs in project 900000 (PL/PD) are funded through operations.

Within the 800000 Recollectable Project category, SCRRA management has identified several projects within this group that have project characteristics similar to projects classified as New Capital 400000 projects.

The following is a summary of projects currently classified as 800000 projects. They are projects performed on third party assets, which are those projects that replace or improve existing railroad facilities that are under the ownership of a third party (e.g. City pedestrian crossing); Recollectable Projects, which are those projects that are performed by or for third parties that happen to cross or involve the SCRRA Railroad facilities such as, a Hollywood movie shoot on our trains or track, Charter business like the California Speedway train, or various utility work

performed by local public agency's all of which require SCRRA personnel assistance and cooperation; and New Capital type projects, which historically have been identified as project number 400000.

As a result of the evolution of our business practices it has been determined that certain projects formally identified as 800000 Recollectable project numbers have characteristics that closely resemble New Capital type projects in project management and staff involvement. New Capital projects have been defined by the fact that at the end of a project an asset is generated and retained on the books of the SCRRA. If the asset belongs to a third party upon completion of work by SCRRA that project is identified as an 800000 third party project. The delivery of these projects is the same. The SCRRA either appoints internally or contracts out for a Project Manager. The project is designed by an outside engineering consultant. The project is bid and awarded by the Metrolink Board. The construction is managed by a contracted Construction Manager. SCRRA oversees the project management function and expenses are incurred and tracked through time-sheet charges for a full range of support activities that could include but is not limited to: Contract Administration, MOW support, Management review and approval, Community Outreach, Station Coordination, Dispatching, Signal & Communication Support, Design, Construction and Public Project support, Finance and Grants management. Given these factors, we have identified several 800000 projects as New Capital type projects. They are project No. 830019 (Santa Ana Pedestrian Bridge), 830021 (Orange Depot Pedestrian Bridge), 830020 (Montclair Underpass), 830011 (Montalvo Station), 830023 (Cucamonga PED), 860167 (Sun Valley Siding), 860265 (Perris Valley Line), 860424 (UP Tunnels 18&25), and 860426 (OCTA Grade Crossing Project). We have segregated these projects in the actual ICAP data and have incorporated them into the calculation for the New Capital overhead rate and excluded them from the Recollectable overhead rate. This gives a more accurate representation of how the SCRRA conducts business and how the related overhead should be properly allocated. As we establish the foundation for these third party projects, we will assign these New Capital Recollectable projects with a project number prefix still within the 800000 series but with its own unique identifier so as to clearly delineate those previously categorized 800000 Recollectable projects as New Capital type projects with a New Capital recollectable prefix.

Each of the project categories accumulates overhead costs. Overhead costs are defined as costs specific to a project category, but are not identifiable to a specific project within the project category. Each of the project categories has a series of direct projects each of which perform a unique scope of work. As an example, the series of projects that would fall under the new capital project group may be sequentially numbered 400001, 400002, 400003 and so forth; each of these projects would be assigned a specific scope of work that is unique to the project.

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This document describes SCRRA's ICAP for FY 2006-07.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final	7/1/06 to 6/30/07	81.27%	G&A
Final	7/1/06 to 6/30/07	371.65%	New Capital
Final	7/1/06 to 6/30/07	390.27%	Capital Rehabilitation & Renovation
Final	7/1/06 to 6/30/07	(64.59) %	Equipment
Final	7/1/06 to 6/30/07	257.30%	Recollectables

*Base: Total Direct Salaries and Wages

SECTION II: General Provisions

A. Limitations:

The rates in the Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) that no costs other than those incurred by the grantee or allocated to the grantee via an approved Central Service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee and allowable under the cost principles contained in OMB Circular A-87; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) that prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133; (5) that the actual costs used in the calculation of the approved rate are from the grantee's Single Audit; and, (6) that the information provided by the grantee which was used as a basis for acceptance of the rate approved herein is not subsequently found to be materially inaccurate.

B. Audit Adjustments: Immaterial adjustments resulting from the audit of information contained in this indirect cost plan will be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursements from the grantee.

C. Accounting Changes: The rate contained in this indirect cost plan is based on the organizational structure and the accounting system in effect at the time the plan was approved. Changes in the organizational structure or changes in the method of accounting for costs which affect the amount of reimbursement resulting from the use of the rate in this plan require prior approval from Caltrans. Failure to obtain such approval may result in subsequent audit disallowances.

D. Final Rate: The final rate contained in this indirect cost plan is based on actual costs, which were incurred during the fiscal year to which the rate applies. Therefore, a carry-forward provision does not apply.

E. Use By Other Federal Agencies: Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects or programs, for which DOT is not the cognizant federal agency. The approval will also be used by Caltrans in state-only funded projects.

F. Other: If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

H: Rate Calculations

The Southern California Regional Rail Authority utilizes a two-tier allocation process to allocate indirect costs. The first tier allocates allowable general and administrative expenses to project overhead pools on the basis of indirect and direct staff salaries charged within each project category. The allocation excludes fringe benefits. Normally, the first tier allocation utilizes the budget for G&A costs and indirect/direct labor budgeted in each project category as the basis of the G&A allocation. However, in the FY 2006-07 ICAP G&A expenses will be allocated based upon actual allocable G&A expenses as a relationship to actual indirect and direct labor charged to project categories. In doing so, all allocable G&A expenses incurred in the fiscal year will be allocated to the project categories. The second tier allocates cost in the project overhead pools (project category overhead costs plus allocated G&A) to direct projects within each project category. Typically, the allocation rate is based upon the ratio of budgeted costs in the project overhead pools as a function of direct labor budgeted for each project category. However, in FY 2006-07 the second tier allocation will be completed based upon actual direct labor charges. Consequently, all the indirect costs incurred in the project categories will be allocated.

The Fiscal Year 2006-07 Tier 1 and Tier 2 allocations are summarized below, followed by a chart illustrating the cost allocation model.

TIER 1

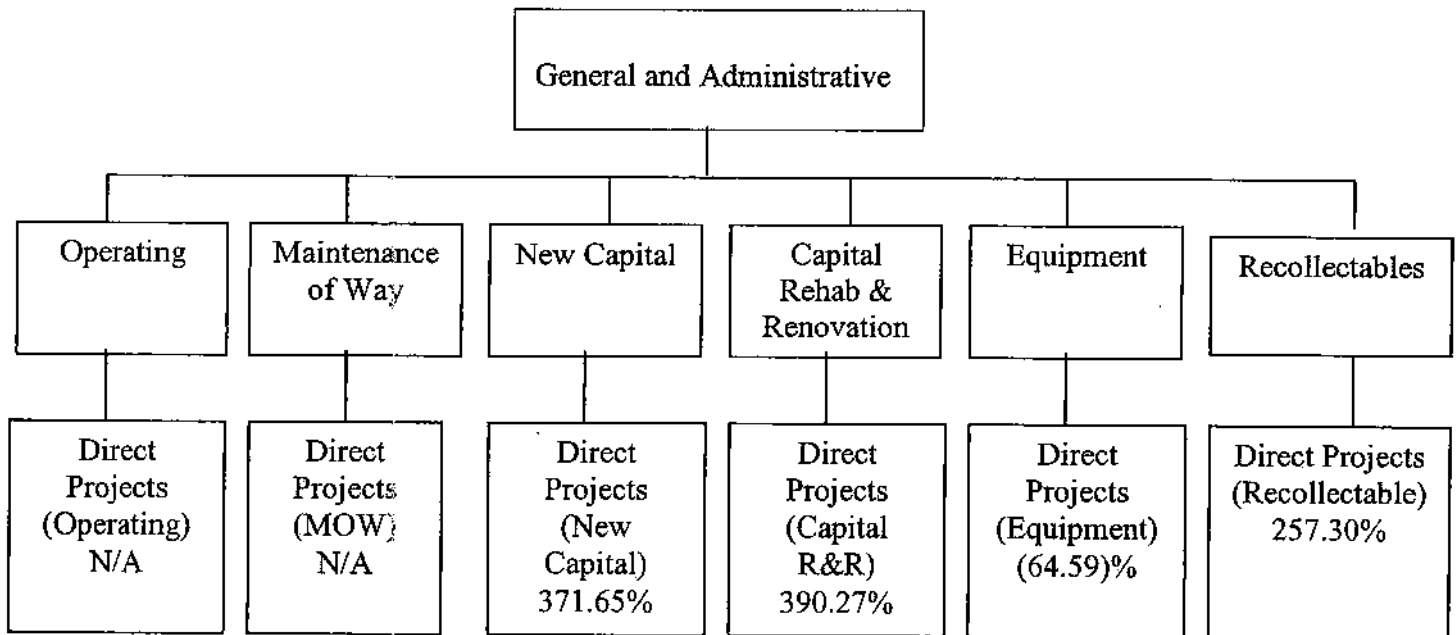
	<u>Indirect Cost</u>
FY 2006-07 Actual Indirect and Direct Salaries (from Attachment 1)	\$9,596,587
FY 2006-07 Actual General and Administrative (from Attachment 1)	7,799,464
Computed Rate for FY 2006-07 (Actual Gen and Admin ÷ Indirect/Direct Salaries)	81.27%

TIER 2

Project Category Name A	Actual Direct Labor B	Overhead and Allocated G&A Costs C	Indirect Rate C ÷ B
Train Operations*	N/A	N/A	N/A
Maintenance of Way*	N/A	N/A	N/A
New Capital	300,295	1,116,059	371.65%
Capital Rehabilitation & Renovation	390,073	1,522,343	390.27%
Equipment	63,949	(41,304)	(64.59)%
Recollectables	342,966	882,451	257.30%

*Amounts are paid through member agency subsidies. Annually, composite allocation rates for each member agency are derived. These composite rates are used as the allocation base of indirect costs to each member agency.

The following chart presents a hierarchy of how costs are allocated in the ICAP. As illustrated above, G&A expenses flow to the project overhead pools, and then to the direct projects. In FY 2006-07, the allocation of each project categories actual indirect expenses to the direct projects is based upon the actual indirect costs as a function of actual direct labor charged in the project category. As shown on the chart, project overhead expenses are allocated at 371.65%, 390.27%, (64.59) %, 257.30% to direct projects in new capital, capital rehabilitation & renovation, equipment and recollectable, respectively.



Section III: Certification and Approval

CERTIFICATION OF INDIRECT COSTS:

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2007 (July 01, 2006 to June 30, 2007) are allowable in accordance with the requirements of the federal and state awards to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to the federal and state awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with the applicable requirements. Further, the same costs that have been treated, as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rate.

I declare that the foregoing is true and correct.

Southern California Regional Rail Authority:

Signature

Reviewed, Approved and Submitted by:

Name of Official: Patricia Kataura

Title: Controller/Treasurer

Date: 5/21/06

Telephone Number: (213) 452-0333

Signature

Prepared by:

Name: Edward Enriquez

Title: Manager, Accounting

Date: 5/21/06

Telephone Number: (213) 452-0312

INDIRECT COST RATE APPROVAL:

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature _____

Review and approved by:

Clifford R Vose

(Name of Audit Manager)

Title: Senior Management Auditor

Date: 8 October

Phone Number: (916) 323-7911

Signature _____

Review and approved by:

Lisa Moreno

(Name of Auditor)

Title: Associate Management Auditor

Date: 10/6/09

Phone Number: (916) 323-7885

Section IV: Indirect Cost Allocation Plan Development Process for FY 2006-07

Introduction

This document outlines the step-by-step process utilized in the development of the Southern California Regional Rail Authority's (SCRRA) Cost Allocation Plan. It explains the procedure followed in FY 2006-07 in allocating overhead costs to the projects planned for the fiscal year.

On an annual basis, SCRRA maintains one G&A project, project number 000000, and seven project categories. The project categories are: Train Operations (project 100000), Maintenance of Way (project 200000), New Capital (project 400000), Capital Rehabilitation and Renovation (project 500000), Equipment (project 600000), Recollectables (project 800000), and PL/PD (project 900000). For purposes of overhead accumulation and calculation purposes project 900000 is combined with project 100000 as the costs in project 900000 (PL/PD) closely relates to the operations of the SCRRA.

Within the 800000 Recollectable Project category, SCRRA management has identified several projects within this group that have project management characteristics similar to projects classified as New Capital 400000 projects.

The following is a summary of projects currently classified as 800000 projects. They are projects performed on third party assets, which are those projects that replace or improve existing railroad facilities that are under the ownership of a third party (e.g. City pedestrian crossing); Recollectable Projects, which are those projects that are performed by or for third parties that happen to cross or involve the SCRRA Railroad facilities such as, a Hollywood movie shoot on our trains or track, Charter business like the California Speedway train, or various utility work performed by local public agency's all of which require SCRRA personnel assistance and cooperation; and New Capital type projects, which historically have been identified as project number 400000.

As a result of the evolution of our business practices it has been determined that certain projects formally identified as 800000 Recollectable project numbers have characteristics that closely resemble New Capital type projects in project management and staff involvement. New Capital projects have been defined by the fact that at the end of a project an asset is generated and retained on the books of the SCRRA. If the asset belongs to a third party upon completion of work by SCRRA that project is identified as an 800000 third party project. The delivery of these projects is the same. The SCRRA either appoints internally or contracts out for a Project Manager. The project is designed by an outside engineering consultant. The project is bid and awarded by the Metrolink Board. The construction is managed by a contracted Construction Manager. SCRRA oversees the project management function and expenses are incurred and tracked through time-sheet charges for a full range of support activities that could include but is not limited to: Contract Administration, MOW support, Management review and approval, Community Outreach, Station Coordination, Dispatching, Signal & Communication Support, Design, Construction and Public Project support, Finance and Grants management. Given these factors, we have identified several 800000 projects as New Capital type projects. They are project No. 830019 (Santa Ana Pedestrian Bridge), 830021 (Orange Depot Pedestrian Bridge), 830020 (Montclair Underpass), 830011 (Montalvo Station), 830023 (Cucamonga PED), 860167

(Sun Valley Siding), 860265 (Perris Valley Line), 860424 (UP Tunnels 18&25), and 860426 (OCTA Grade Crossing Project). We have segregated these projects in the actual ICAP data and have incorporated them into the calculation for the New Capital overhead rate and excluded them from the Recollectable overhead rate. This gives a more accurate representation of how the SCRRA conducts business and how the related overhead should be properly allocated. As we establish the foundation for these third party projects, we will assign these New Capital Recollectable projects with a project number prefix still within the 800000 series but with its own unique identifier so as to clearly delineate those previously categorized 800000 Recollectable projects as New Capital type projects with a New Capital recollectable prefix.

Each of the project categories has a series of direct projects, each project performing a unique scope of work. As an example, the series of projects that fall under the new capital project group are sequentially numbered 400001, 400002, 400003 and so forth; each of these projects is assigned a specific scope of work that is unique to the project. SCRRA has also established project number 000002, which is used to capture unallowable costs per OMB Circular A-87. These costs are then segregated from G&A and not allocated as part of the indirect cost allocation plan.

G&A expenses are defined as agency-wide expenses which cannot be specifically associated with a single project category, but rather benefit multiple project categories. Examples of G&A expenses include lease of the administrative office space, utilities, and administrative departments such as Human Resources. The FY 2006-07 ICAP actual relationships of G&A expenses to project indirect and direct labor is an annual rate of 81.27%.

Each project category accumulates overhead costs. Overhead costs are defined as costs specific to a project category, but are not identifiable to a specific project within the project category. The overhead costs are accumulated in an overhead pool (for example, the overhead pool for Capital Rehabilitation and Renovation, is project 500000) in each of the project groups and are later allocated to the individual projects on the basis of a calculated allocation rate.

The focus of this document is to explain how the general and administrative costs and the other project overhead costs residing in each indirect cost pool are distributed to the projects within each project category.

Before giving a detailed explanation on how all costs are distributed to the individual projects, samples of overhead and pricing exhibits are presented below. The exhibits explain how (1) G&A costs would be applied to each project category overhead pool and (2) how a manager would correctly price a request for a recollectable project utilizing the indirect rates. Additionally, a definition of technical terms is included.

Exhibit A is the sample overhead exhibit. It provides a summary of how \$817 of general and administrative expenses would be allocated to the projects group overhead pools per the developed cost allocation plan assuming direct and indirect labor charges for all collector pools total \$1,000.

Description	G&A	Train Operations	Maint. of Way	New Capital	R & R Maint.	Equip.	Recollectables
G&A	\$817						
Indirect & Direct Labor		\$200	\$250	\$150	\$185	\$50	\$165
First Tier G&A Allocation*		\$163.4	\$204.25	\$122.55	\$151.15	\$40.85	\$134.8
Second Tier Allocation to Projects**	Project Labor x ICAP rate	Project Labor x ICAP rate	Project Labor x ICAP rate	Project Labor x ICAP rate	Project Labor x ICAP rate	Project Labor x ICAP rate	Project Labor x ICAP rate

* **TIER 1** - Allocation of G&A expenses is applied to the project category overhead pools at a rate of G&A expenses as a percentage of indirect and direct labor within each project category (81.27% is the actual ratio).

** **TIER 2** - Indirect costs within each project category – the sum of the G&A costs allocated to the project category and overhead costs in the overhead pool are then allocated to the individual projects within the project category. The actual allocation is based upon actual direct labor charged to each project multiplied by the ICAP indirect rate for the project category. The allocated costs are credited to the project group overhead pool and debited to the individual project.

Exhibit B is a Sample Pricing Exhibit. It demonstrates how a manager, after receiving a request to conduct a collectable project would correctly price the request consistent with the ICAP

Suppose a project manager receives a request to conduct a collectable project. If the direct labor were estimated at \$10,000, how would he accurately price the collectable?

Calculation:	Estimated Actual Direct Labor	\$10,000
	Other Direct Costs	150,000
	Add: Overhead costs based on predetermined rate of 257.30%	25,730
	Total Cost of Collectable	\$185,730

Definitions of Technical Terms

Cost Allocation Plan – The process of allocating general and administrative and project overhead costs to SCRRA projects.

Overhead Costs – Agency costs specific to a single project category, which cannot be identified to a particular project due to their general nature.

General and Administrative Costs – G&A expenses are defined as agency-wide expenses which cannot be specifically associated with a single project category, but rather benefit multiple project categories.

Train Operations Overhead – General operations costs, which cannot be identified to a specific task in the operations department. Examples are salaries and wages not charged to specific tasks, general office supplies, etc.

Maintenance of Way Overhead – General maintenance of way costs, which cannot be identified to specific task in the maintenance of way department.

New Capital Overhead – General new capital costs, which cannot be identified to specific task in new capital department. Examples are salaries and wages not applicable to a single project, general office supplies, etc.

Capital Rehabilitation and Renovation Overhead - General capital rehabilitation and renovation costs, which cannot be identified to specific task in capital maintenance department. Examples are salaries and wages not applicable to a specific project, general office supplies, etc.

Equipment Overhead - General equipment costs, which cannot be identified to specific task in capital maintenance department. Examples are salaries and wages not charged to specific tasks, general office supplies, etc.

Recollectables Overhead – General collectable costs, which cannot be identified to a specific task in the collectable department. Examples are salaries and wages not applicable to a specific project, general office supplies, etc.

Overhead Pool – Related overhead costs that are grouped together in a single project category. These costs are later distributed to the individual projects within each project category.

General and Administrative Costs

The G&A costs for SCRRA include salaries/wages; fringe benefits for support staff, and other general and administrative costs such as rent, office supplies, telephone expenses, repairs and maintenance, etc. Fringe benefits are calculated as a function of regular staff salaries for SCRRA staff, excluding dispatching department. Dispatching wages and related fringe benefits are captured in the operating pool, which is funded solely by member agencies. Excluded from the general and administrative costs are lobbying costs and that portion of staff salaries dedicated to lobbying activities. Additionally, other unallowable costs per OMB Circular A-87 have been segregated from G&A and not allocated to the overhead pools. The G&A actual amount for FY 2006-07 is \$7,799,464.

Allocation of General and Administrative Costs to the Overhead Pools

The allocation of G&A costs is calculated as a function of the allowable G&A costs as a ratio of the sum of indirect and direct salaries excluding fringe benefits to be incurred by each of the different project categories. Allocable G&A is defined as total G&A costs less those costs that are unallowable per OMB Circular A-87. Once the G&A allocation is recorded, it increases the cost in the project overhead pools within each project category. The G&A cost allocation to each project category for FY 2006-07 are: Train operations, \$5,379,957; Maintenance of Way, \$1,015,236; New Capital, \$375,147; Capital Rehabilitation and Renovation, \$566,785; Equipment, \$55,012, and Recollectables, \$407,327.

ALLOCATION OF "PROJECT GROUP OVERHEAD POOL" TOTAL TO THE PROJECTS

Costs incurred in a project category which cannot be directly identified to a specific project within a project category are accumulated in an overhead pool in that project category. Total indirect costs in the project category overhead pools for FY 2006-07 were \$90,433,861, excluding unallowable indirect costs. Attachment 1 provides the calculation of this value. A summary is presented below:

	Train Operations *	MOW *	New Capital	R&R Capital	Equipment Capital	Recollectables	Totals
Overhead	\$83,081,222	\$5,277,363	\$740,912	\$955,558	\$(96,316)	\$475,123	\$90,433,861
Allocated G&A	5,379,957	1,015,236	375,147	566,785	55,012	407,327	7,799,464
Totals	\$88,461,179	\$6,292,599	\$1,116,059	\$1,522,343	\$(41,304)	\$882,450	\$98,233,325

* Indirect Costs in the Train Operations (Ops) and Maintenance of Way (MOW) Project Categories are funded only through member agency subsidy. The subsidies are funded through the use of local funds. The allocation of the Ops and MOW indirect expenses to member agencies is completed utilizing an allocation formula negotiated amongst our member agencies. The allocation is then distributed to each member agency in accordance with the approved allocation methodology on a monthly basis. Consequently, SCRRRA does not include proposed indirect rates for the Ops and MOW areas in the ICAP.

These overhead pool costs are later allocated to the specific projects falling within each project category by multiplying the indirect rate for the project category by the actual direct labor charged to projects within that category. Computation of the effective indirect rate for each project category in the ICAP is derived by dividing the sum of the allocated G&A and the project overhead pool costs by the sum of direct labor within the project category.

The following is an example of how actual new capital overhead pool costs would be allocated to a project that has incurred direct labor charges.

Example: Assume that the new capital overhead project pool has accumulated \$100,000 in costs. Also, assume that project 400001 has incurred direct labor costs to date of \$20,000 and that the calculated IDCR is 371.65% New Capital. The portion of the \$100,000 to be allocated to project 400001 would be as follows:

New Capital overhead project pool	= \$100,000
New Capital Indirect Rate	= 371.65%
Incurred Direct Labor Costs – Project 400001	= \$20,000
Allocated New capital overhead costs (direct labor x 371.65% indirect rate)	= \$74,330

Section V: Timekeeping/Time-Charging Procedures

Employees charge their time to project codes and task numbers for direct-service projects and to various indirect categories for those that are not project-direct. Indirect categories include:

- Time off without pay
- Jury duty
- Bereavement leave
- Holidays
- Frozen vacation time
- Family leave time
- Project administration not solely attributable to a specific project
- Project management not solely attributable to a specific project.

Time that is indirect and also not applicable to a particular direct project category such as a direct project Capital Rehab & Renovation is aggregated into agency-wide general and administrative and is allocated to project overhead cost pool. (See description in Section IV.) Time that is indirect, but that is applicable to a particular project category is assigned to that project's overhead cost pool. The labor charged indirectly to the overhead cost pool and the labor charged directly to projects is then used as the basis for spreading G&A costs to these pools. Both G&A that is spread to these pools and costs that are specifically charged to the pools are subsequently combined into total overhead per project category and used to calculate indirect costs rates.

Costs related to the hours recorded on timesheets are charged to the various accounts corresponding to project codes. The charging methodologies are somewhat different for exempt and non-exempt employee categories:

Exempt Employees - For exempt employees, an effective hourly rate is calculated. An amount corresponding to employee's total salaries for the workweek is divided by the total number of hours recorded. This creates an effective rate that ensures proportionate charging of costs to projects.

Non-exempt Employees - For non-exempt employees, hour's per-project or per-category of indirect work is based on standard workweeks. Some hourly SCRRA employees have 38-hour workweeks and others a 40-hour workweek. The description that follows addresses overtime as time outside the standard daily work hours of an employee that exceed 8 work hours in a work day.

For a 40-hour-per-week, eight-hour-per-day employee, working from 8 AM to 5 PM, any work before 8 AM or after 5 PM is charged as overtime to whatever project the employee was working on during the pre-8 AM or post-5 PM period. Assuming the employee time charges exceed 40 hours in workweek, using the non-core schedule to identify overtime, the employee will identify, by project, the number of hours worked in excess of their daily schedule. For example, take an employee that has no time off with pay (TOWP) during the week and works over 8 hours in a day and 40 hours for the workweek. The hours identified on the timesheet as excess hours (outside their core hours) will be charged to the project identified with those excess hours as overtime. No allocation of overtime (at time and one-half) will occur in this situation. Allocation of overtime only occurs when the employee records TOWP and exceeds 40 hours.

If the employee has taken time off without pay (TOWP) during the workweek, the TOWP hours are deducted from the total hours recorded by the employee. In such a case, overtime hours are charged at straight time as long as hours worked for the workweek are 40 or less. If, however, regular hours plus overtime hours exceed 40 even after TOWP is deducted from the workweek, the hours in excess of 40 are charged as follows: the excess hours are allocated at time and a half across all projects for which the employee recorded time outside their core work hours. For both exempt and non-exempt employees, fringe benefit costs are allocated to regular salaries and wages based upon the fringe benefit rate. On a year-to-date basis actual fringe benefits were compared to a budgeted rate and a true up of fringe benefits occurred. At the conclusion of the fiscal year, the actual fringe benefits incurred during the year were compared to the amount allocated using the estimated rate. An adjustment was made to correct the allocated fringe benefits to equal the actual costs incurred on a pro rata basis to all direct and collector pool projects incurring labor charges over the course of the year. The over/under recovery of fringe benefits costs at year-end will be adjusted on a final YTD credit memo or invoice depending on the actual results. SCRRA has set a materiality threshold for the issuance of credit memos or adjusted invoices at no less than a minimum of \$500. The \$500 threshold is based on the necessary time and effort of SCRRA staff to perform the recalculation, adjustments, allocation and revised billing. Any over/under recovered costs that are not billed out or credited will be carried forward to the following fiscal year allocation.

Section VI – Description of ICAP Spreadsheet

This section describes how the cost allocation worksheet is used to calculate indirect costs.

FY 2006-07 actual costs were used to populate the indirect-cost allocation worksheet that computes the FY 2006-07 ICAP. The worksheet calculates indirect rates using the actual cost and the indirect-cost-allocation methodology utilizing direct labor as the basis of allocating indirect costs. This results in an allocation of indirect costs that is in keeping with OMB Circular A-87 requirements.

Basis of Fiscal Year 2007 ICAP Worksheet

1. Use the indirect-cost allocation basis of the sum of indirect and direct salaries to calculate FY 07 G&A indirect rates applicable to project categories. Use direct salaries as the basis for allocation of allocated G&A and project overhead to projects.
2. The FY 2006-07 ICAP is based on actual costs.
3. The FY 2006-07 does not include a carry forward from a previous year.

Description of Worksheet Calculations

Worksheet A, Base FY07 ICAP

Worksheet A calculates indirect costs and rates for FY 2006-07 based on actual expenses.

Page 1

The costs shown across the first row on page 1 are G&A costs for salaries and benefits. These costs are broad in nature and benefit three or more of the project categories. Similarly, the G&A costs in the first column of figures, starting with the \$110,593 for Legal Services, are agency-wide administrative costs that cannot be directly attributed to a single project category or direct-service projects. In the "First Tier Allocation" calculation on page 1, G&A costs are cleared out and allocated to the project category overhead cost pools on the basis of total salaries (overhead and direct) charged within each category. The result is shown in the row labeled "Allocation – General & Admin Costs" near the bottom of the page. Certain actual G&A costs are classified as unallowable and are excluded from the total allocable G&A. Per OMB Circular A-87; principles are applied to establish the allowability or unallowability of certain items of cost. SCRRA maintains an unallowable G&A costs in project number 000002. Costs captured in this project are defined in OMB Circular A-87 as not allowable for reimbursement in the cost allocation plan. These costs are then segregated from G&A and not allocated as part of the indirect cost allocation plan

Pages 2-3

"Project Overhead Expenses" represent actual indirect expenses specific to a single project category.

Project Overhead Expenses are totaled down for each project category and shown in the row "Total Indirect/Overhead Costs." They are then added to "Total Pooled Overhead Costs" on the bottom of page 3.

Pages 4-6

These pages show direct costs incurred in each project category. Total "Direct Labor Costs," "Direct Fringe" and total "Other Direct Costs" incurred in each project category are shown separately. In future ICAPs, SCRRA annually budgets its total costs for its capital programs. This represents planned capital expenditures for a multi-year period.

Total direct labor and fringe costs for each project category from page 7 is shown in the row labeled "Total - Direct Labor and Direct Fringe," respectively. Below that, total other direct costs from pages 4-6 are shown in the row labeled "Total - Other Direct Costs." These are totaled to produce "Total Direct Costs."

The "Total Indirect Costs/Overhead Costs" are divided by "Total - Direct Labor" to derive the "Allocation Rate of Overhead" for each project category (e.g. 390.27% for Capital Rehabilitation & Renovation).

Note that while Total Direct and Overhead Costs are calculated for the Operating and Maintenance of Way project categories, these costs are funded only by local money. Consequently, SCRRA does not include the computation of a second tier indirect rate for these categories in the ICAP.

CONCLUSION

Consistent implementation of this allocation plan will result in the assurance that all overhead costs will be applied to the direct projects on a timely basis in accordance with OMB Circular A-87. It will contribute to the assurance that outgoing invoices are inclusive of all relevant and allowable costs pertaining to the invoice period. Additionally, this process will result in accurate online (FIS) cost accounting of incurred expenses and will eliminate the tedious process of manual reconciliation at the end of each year.